National Workshops on Infrastructure Financing Strategies for Sustainable Development in Samoa

Apia, 1-2 February 2017

Bankability of PPP Projects

Talofa

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Funding vs. Financing Infrastructure

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Funding

Government

- Subsidies to SOEs, etc.

User fees

- Tolls, tariff, etc.

Other revenues

- Capturing land value, commercial activities, etc.

Financing

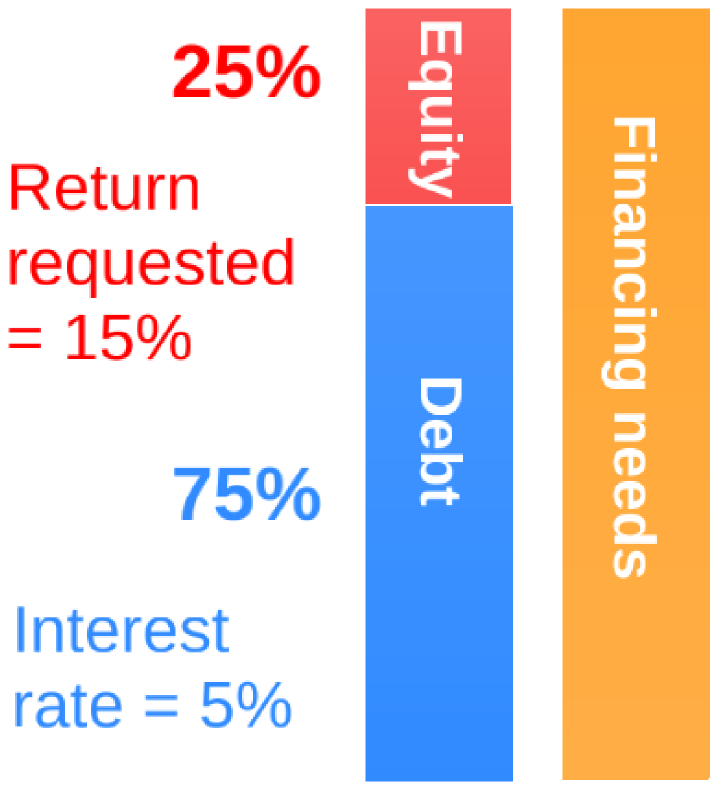
Public (domestic and foreign)

- Government budget
- Public borrowing
- International grants

Private (domestic and foreign)

- Infrastructure companies
- Commercial banks
- Institutional investors

PPP Project Financing



Equity providers

- ✓ *Project developers, construction companies, investors*

First in, last out… but high risks = high returns

Debt providers

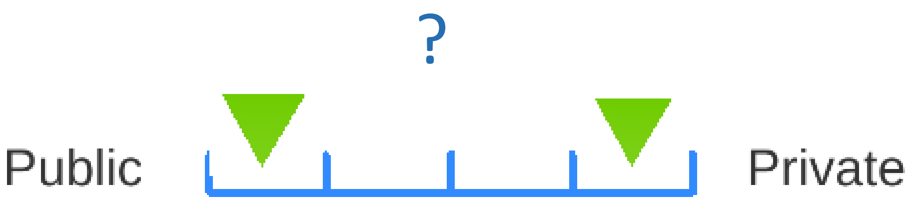
- ✓ *Commercial banks, export credit agencies, multilaterals*

Interest rate depends on risks
…but beyond a certain risk
→ no lending (risk adverse)

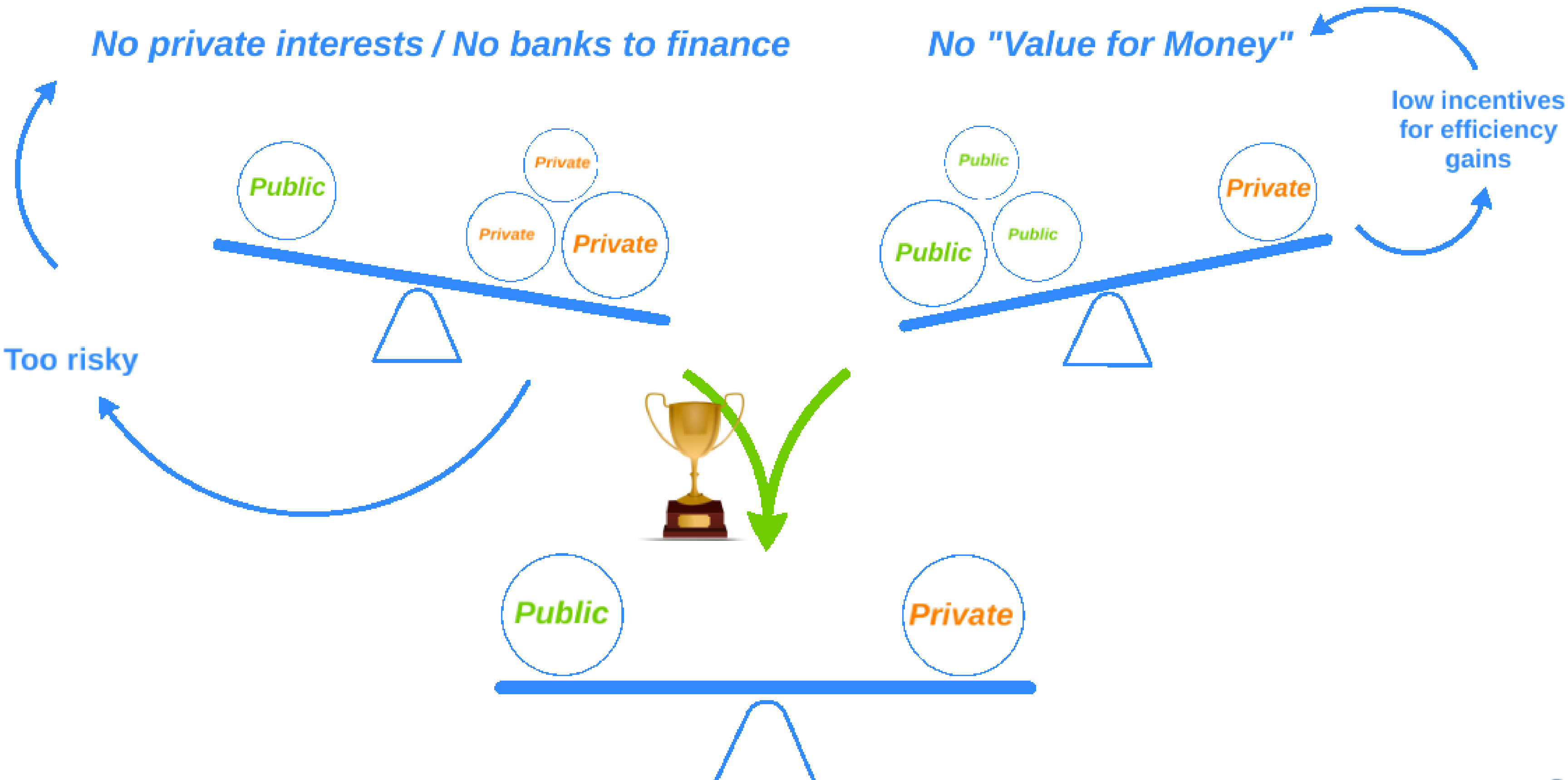
Bankability – Risk allocation

"Willingness of banks to advance the funds based on the agreed risk share amongst the project participants"

- Risk allocation is key
  - ✓ *Land acquisition*
  - ✓ *Demand risks*
  - ✓ *Currency risks*
  - ✓ *Repatriation*



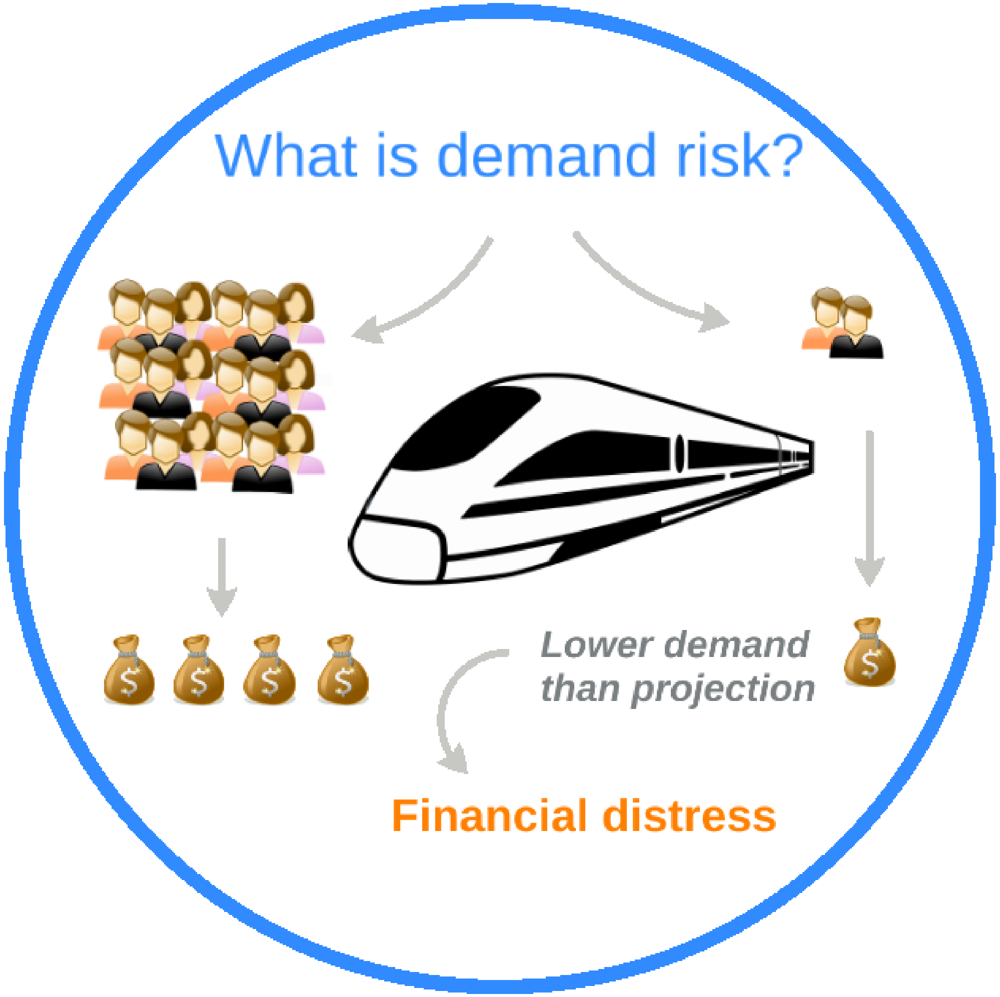
Risk allocation – Why does it matter?



Main risks (1): Land acquisition

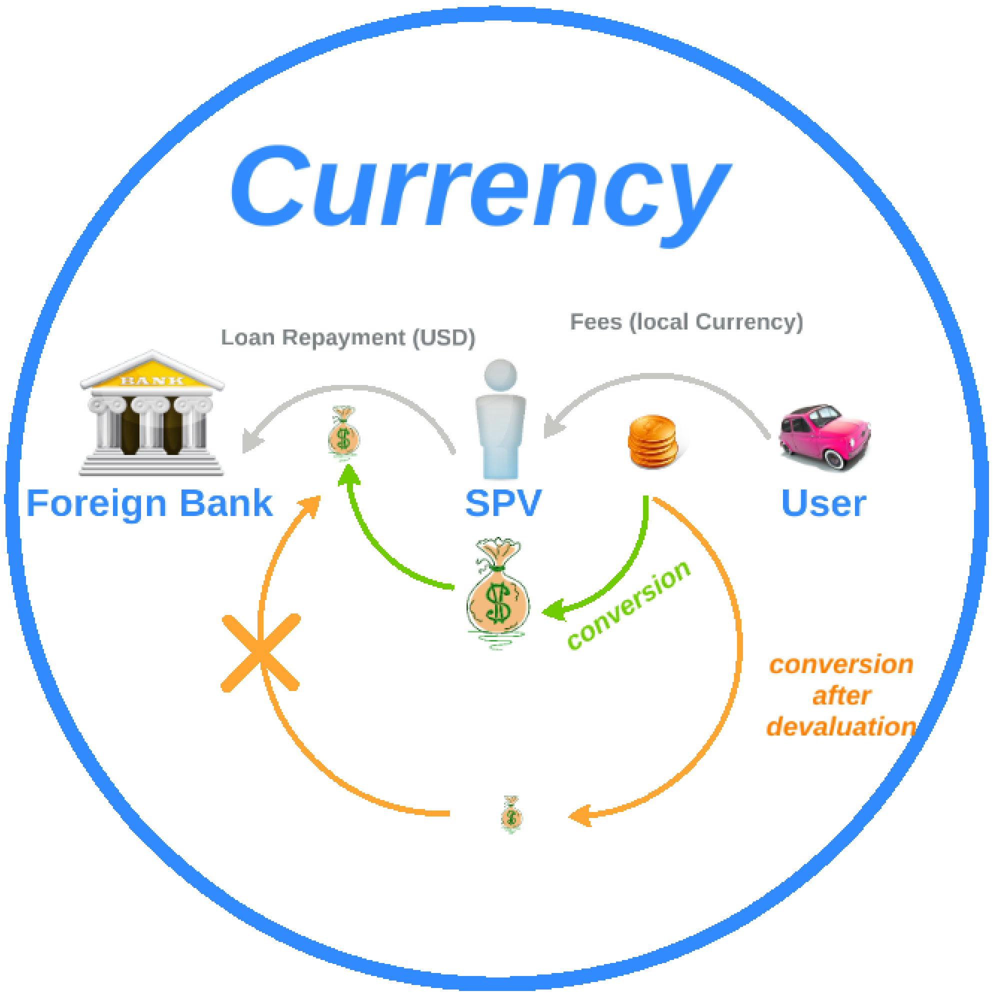
- ✓ *Banks are unlikely to provide loans before land is secured*
- ✓ *Government might be in a better position to acquire land*
- ✓ *Securing land before launching tenders*

Main risks (2): Demand risk



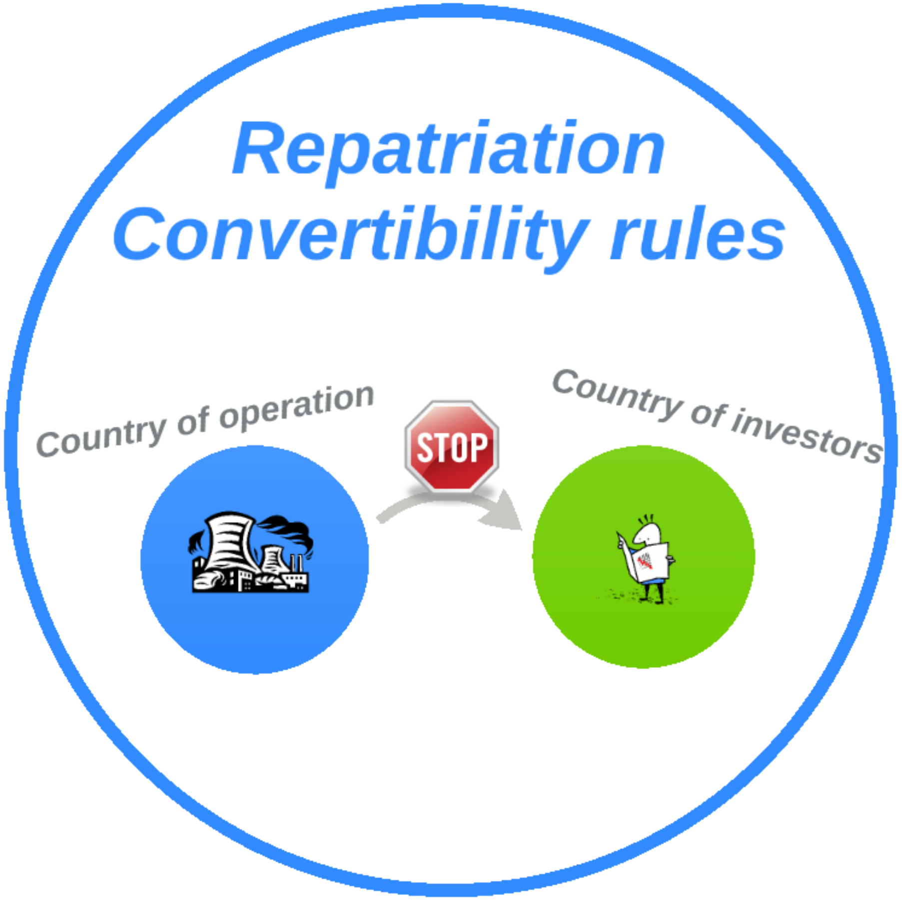
- ✓ *Demand is extremely difficult to forecast*
- ✓ *Strong feasibility analysis required*
- ✓ *Government have provided guarantees in some countries*

Main risks (3): Currency risk



- ✓ *Private sector cannot control this risk*
- ✓ *Ideally, loans should be in local currency*
- ✓ *Guarantees?*

Main risks (4): Repatriation



- ✓ *Pay back is often outside the country*
- ✓ *Capital controls can represent a risk for foreign lenders*

Bankability – Private sector capacity

Has the project sponsor the ability and financial capacity to support its project risks?

- What is the company track record? International players (developers, contractors)?
- How much equity is the company investing?
- Is the project with support from experienced transaction advisors

→ *The balance has to be found between fostering competition and attracting the best players*

Bankability – Government reliability

Will the government meet its obligation?

- Stability: long-term Government support/commitment
  - ✓ *Example: no confiscation of private assets – no punitive tax regime changes*
- Sustainable tariff adjustment regime
  - ✓ *Tariff are adjusted in accordance with the contract / possibility to appeal regulator decisions*
- Rule of law / Efficient dispute resolution mechanisms
- Credible financial commitments

Key considerations for bankers (1)

- **Collateral regime**: Can the bank use some of the project assets as security for their loan?
  - ✓ *Land*
  - ✓ *Project company shares*
  - ✓ …
- **Step-in rights**: Can the bank take over the project if the private company is in default?
- **Termination payments**: Is the bank fully repaid in case of early project termination?

Key considerations for bankers (2)

- What happens if the contract is terminated before its contractual end date?

<table>
<tr><th></th><th>Private Sector Default</th><th>Government Default</th><th>Force Majeure</th></tr>
<tr><td>Equity</td><td>Private sector loses</td><td>Government compensates</td><td rowspan="2">Losses are shared but debt is typically paid</td></tr>
<tr><td>Debt</td><td>Government compensates</td><td>Government compensates</td></tr>
</table>

Bank's Limitation

- Infrastructure = long-term loans → Banks have short term liabilities (mainly deposit)
- Banks have "single borrower limits" to avoid concentration on a few counterparts
- Regulations might make long-term loans costly (e.g. capital adequacy ratios)
- Is capital market an alternative? The long-term nature of infrastructure projects matches the long-term liabilities of institutional investors

Conclusion

- Allocate risk wisely (i.e. risks to whom can best manage or absorb it)
- Engage bankers early in the process
- Ensure a stable PPP environment
- Select private concessionaire carefully
- Develop the capacity of the local banking sector
- Explore regional collaboration

Fa'afetai

Th@nk you

website: http://www.unescap.org/our-work/macroeconomic-policy-financing-development/infrastructure-financing-and-public-private-partnerships

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